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D.P.U./D.T.E. 97-93

Investigation by the Department into the Classification of Transmission and Distribution Facilities

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APPEARANCES: William S. Stowe, Esq.
800 Boylston Street, 36th Floor
Boston, Massachusetts 02199
FOR: BOSTON EDISON COMPANY

Mary E. Grover, Esq.
One Main Street
P.O. Box 9150
Cambridge, Massachusetts 02142-9150
FOR: CAMBRIDGE ELECTRIC LIGHT COMPANY
COMMONWEALTH ELECTRIC COMPANY

Mark Sorgman
750 West Center Street
P.O. Box 543
West Bridgewater, Massachusetts 02379
FOR: EASTERN UTILITIES ASSOCIATES

John A. DeTore, Esq.
Rubin and Rudman
50 Rowes Wharf
Boston, Massachusetts 02110
FOR: ENRON CAPITAL & TRADE RESOURCES, INC.

Karen M. Asbury
6 Liberty Lane West
Hampton, NH 03842-1720
FOR: FITCHBURG GAS and ELECTRIC LIGHT COMPANY

Paige Graening, Esq.
25 Research Drive
Westborough, Massachusetts 01582-0099
FOR: NEW ENGLAND POWER SERVICE COMPANY

Stephen Klionsky, Esq.
260 Franklin Street, 21st Floor
Boston, Massachusetts 02110-3179
FOR: WESTERN MASSACHUSETTS ELECTRIC COMPANY

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I. INTRODUCTION

This Order reviews Massachusetts electric company transmission and distribution facility classifications to determine appropriate jurisdictional authority pursuant to the test established by the Federal Energy Regulatory Commission ("FERC") in its Final Rule, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, F.E.R.C. Stats. & Regs. ¶31,036 (1996) at 31,770-31,785 ("Order 888"). In Order 888, FERC noted that states have historically maintained jurisdiction over bundled retail service, including the transmission facilities required to provide bundled service to retail customers. Order 888, at 31,781. In Order 888, FERC also noted that it holds exclusive jurisdiction over transmission in interstate commerce, including all unbundled transmission service in interstate commerce whether that service is provided for wholesale or retail customers. Id., at 31,780-31,785. Thus, according to FERC, as states unbundle the components of retail service, the issue of jurisdiction arises with respect to the transmission facilities that had previously been overseen by state regulatory authorities. Id.; Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, F.E.R.C. Regs. Preambles ¶31,048 (1997) at 30,181 ("Order 888-A"). In order to determine whether unbundled facilities should be classified as transmission and subject to FERC jurisdiction, or as distribution and subject to state jurisdiction, FERC formulated a seven-indicator test ("FERC's test). Order 888, at 31,770-31,771. FERC's test is designed to

identify the facilities, known as local distribution facilities, that will remain within state jurisdiction when a state unbundles the components of retail service and initiates retail choice.[1] Order 888, at 31,780-31,785; Order 888-A at 30,181-30,182.

II. PROCEDURAL HISTORY

On December 30, 1996, the Department ordered electric companies in Massachusetts to file with the Department, by March 3, 1997, analyses supporting the classification of their distribution facilities based on an application of FERC's test. Electric Industry Restructuring Plan: Model Rules and Legislative Proposal, D.P.U. 96-100 (1996) Appendix I at 2. On May 8, 1997, in Massachusetts Electric Company, D.P.U. 96-25 (Phase II) (1997) at 8-9, the Department stated its preference for a coordinated approach to transmission and distribution facility classification through settlement discussions in the context of FERC proceedings, or, if necessary, through company-specific adjudications by the Department.

On May 9, 1997, the Department announced a technical conference pertaining to transmission and distribution facility classification and issued a uniform set of information requests to each Massachusetts electric company. On June 11, 1997, the Department conducted a technical conference to identify issues associated with Massachusetts electric company transmission and distribution facility classifications. This technical conference was attended by representatives of the New Hampshire Public Utility Commission, the Massachusetts Attorney General, Boston Edison Company ("BECo"), Cambridge Electric

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[1] On July 31, 1997, FERC granted the Department's request that FERC accept Massachusetts electric companies' open-access compliance tariffs subject to the Department's determination of local distribution facilities. 80 F.E.R.C. ¶61.143.

Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (together "Com/Energy"), Eastern Edison Company ("EECo") and Eastern Utilities Associates ("EUA"), UNITIL/Fitchburg Gas and Electric Light Company ("FG&E"), New England Power Company ("NEP") and Massachusetts Electric Company ("MECo"), Western Massachusetts Electric Company ("WMECo"), the Massachusetts Municipal Wholesale Electric Company, the Competitive Power Coalition, XENERGY, and certain industrial customers. At the technical conference, each Massachusetts electric company, with one exception, described its historical method of classifying transmission and distribution facilities and summarized the results of its analysis based on an application of FERC's test. EUA attended this technical conference but did not participate, since the issue of its transmission and distribution facility classification was before the Department in EUA's restructuring proceeding, D.P.U./D.T.E. 96-24.

On September 23, 1997, the Department docketed its transmission and distribution facility classification investigation as D.P.U. 97-93 and requested comments regarding company-specific facility classifications.[2]

III. STANDARD OF REVIEW

In this proceeding the Department reviews Massachusetts electric company transmission and distribution facility classifications on a company-specific basis to determine the proper classification of such facilities based on FERC's test. FERC's test consists of seven indicators,

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[2] Comments were submitted by Com/Energy, Enron Capital and Trade Resources, Inc. ("Enron"), MECo, the New England Electric System ("NEES"), and WMECo.

as follows: (1) local distribution facilities are normally in close proximity to retail customers; (2) local distribution facilities are primarily radial in character; (3) power flows into local distribution systems; it rarely, if ever, flows out; (4) when power enters a local distribution system, it is not reconsigned or transported on to some other market; (5) power entering a local distribution system is consumed in a comparatively restricted geographical area; (6) meters are based at the transmission/local distribution interface to measure flows into the local distribution system; and (7) local distribution systems will be of reduced voltage. Order 888, at 31,770-31,771.

Flexibility is needed to apply FERC's test. First, no threshold level of indicators was specified as necessary in the determination of a facility's classification. Order 888, at 31,781-31,785. Next, neither were the indicators weighted to indicate their relative importance, nor did FERC state that any particular combination of the seven indicators must be present to establish the validity of a classification. Id. Finally, FERC provided state regulators with the opportunity to take into account supplementary facts and historical-use factors that extend beyond the scope of the seven indicators. Id. at 31,783-31,784. In short, FERC's test was designed to accommodate the unique characteristics of diverse and complex systems under a generic test without undue constraint. In this way, FERC's test contemplates a range of acceptable classifications, reflective of company or regional differences.[3] Accordingly, the Department's review in this proceeding considers the seven indicators of FERC's test in a

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[3] In Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company, FERC accepted company-by-company classification differences. 77 F.E.R.C. ¶61,077 (1996).

flexible manner. In addition, as permitted by provisions of Order 888, at 31,784, the Department considers Massachusetts electric company classification proposals in terms of each company's historical use.

IV. POSITIONS OF THE PARTIES

A. Boston Edison Company

1. Description

a. BECO's Transmission and Distribution Systems

BECo stated that its transmission system serves three major purposes: (1) to move power efficiently; (2) to connect generators to distribution centers; and (3) to tie generation resources together (BECo Technical Session Material[4] at 4). BECo defined its transmission system as the circuits of 115 KV or higher; the 115 KV circuit breakers, busses, and associated substation facilities; and the transformers which interconnect its 115, 230, and 345 KV circuits (BECo Description[5] at 11). BECo explained that its transmission system is interconnected to the transmission systems of neighboring utilities at a number of locations, and that retail customers are not directly connected to its transmission facilities (id.).

BECo stated that the major purpose of its distribution system is to deliver power to retail customers (BECo Technical Session Material at 4). BECo noted that its distribution facilities consist of 5, 15, and 25 KV class facilities (BECo Description at 4). In addition,

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[4] BECo provided a ten-page handout at the Department's Technical Session.

[5] In response to the Department's request for information, BECo provided a written description of its transmission and distribution facilities, its historical classification method, and an analysis of its facility classification under FERC's test.

BECo considered facilities which convert transmission voltage to distribution voltage, such as its 115/14 KV and 115/24 KV substations, as distribution facilities (id. at 11; BECo Technical Session Material at 5).

b. Historical Classification Method

BECo stated that, historically, its facilities of 115 KV or higher were typically classified as transmission while facilities operating below that voltage level were classified as distribution (BECo Technical Session Material at 1-10). BECo explained that its historical classification method reflected the major purposes of its transmission and distribution systems as well as guidelines found in the Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act as described in the Code of Federal Regulations (18 CFR), Subchapter C, Part 101, as published by FERC ("USAC") (id.).

c. Classification under FERC's Test

BECo asserted that its historical classification method is consistent with FERC's test (BECo Description at 1, 5). In support of its assertion, BECo provided an analysis of its facilities which concluded that BECo's distribution facilities are local distribution facilities under FERC's test because they meet each of the indicators composing that test (id. at 6-11). No party filed comments to dispute BECo's conclusion regarding its facility classification under FERC's test.

In reviewing its facility classifications, BECo noted that its step-down transformers may not be unambiguously classified as either transmission or distribution (BECo IR-6). BECo

explained that its step-down transformers convert 115 KV transmission voltage to a distribution voltage that is typically 14 KV (id.). BECo commented that these transformers may be viewed as transmission because the high-voltage winding and terminals are set at transmission voltage (id.). However, BECo noted that these facilities could be viewed as distribution because they exist to supply local distribution customers, and their low-voltage windings and terminals operate at distribution voltage (id.). Based on historical use, BECo proposed that these facilities remain classified as distribution (BECo Description at 11).

Similarly, BECo noted that certain of its radial facilities fell into a "gray" area because they operate at transmission voltage while supplying distribution substations only (BECo IR-6). BECo noted that in terms of function, these radial lines may be viewed as distribution facilities, but based on historical use, BECo proposed no change to the transmission classification of these facilities (id.).

2. Analysis and Findings

The Department has reviewed BECo's historical method for classifying facilities -- a method that considered the facilities' major purposes, operating characteristics, and the USAC classification guidelines. The Department has evaluated BECo's facility classification in terms of FERC's test and we find that BECo's classification of its distribution facilities is consistent with FERC's test and that its distribution facilities are properly classified as local distribution.

B. Cambridge Electric Light Company

1. Description

a. Cambridge's Transmission and Distribution Systems

Cambridge stated that its transmission system serves three major purposes: (1) to transfer bulk power from dispersed generating plants to load centers; (2) to interconnect sources of power to ensure emergency backup of bulk power supplies; and (3) to facilitate the economic operation of generating units (Cambridge Description[6] at 3). Cambridge noted that its transmission system consists of seven miles of 115 KV circuits, about 175 miles of 13.8 KV circuits, and three bulk power substations (id. at 4). Cambridge noted that its wholesale power and transmission customers, i.e., the Belmont Municipal Light Department and the Massachusetts Bay Transportation Authority, take wholesale service, including transmission service, at 13.8 KV (id. at 5).

Cambridge noted that the purpose of its distribution system is to provide power to local customers (id. at 3). Cambridge noted that its lower-voltage facilities were designed primarily to serve local retail loads in a radial manner and not to support movement of power across its system (id. at 8). Cambridge indicated that its distribution system consists of over 400 miles of circuits operating at 4.16 KV and below, and 17 lower-voltage substations (id. at 4). Cambridge noted that although a few large customers are served directly at the 13.8 KV level, the vast majority of its retail customers take service at 4.16 KV or below (id. at 5).

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6 In response to the Department's request for information, Cambridge provided a written description of its transmission and distribution facilities, its historical classification method, and an analysis of its facility classification under FERC's test.

b. Historical Classification Method

Cambridge stated that, historically, its facilities of 13.8 KV and above were viewed as transmission (Cambridge Description at 5). Cambridge stated that its historical classification method relied on the USAC guidelines (ComEnergy IR-3). In particular, Cambridge stated that it relied on Electric Plant Instruction 14 with respect to the classification of its assets (ComEnergy IR-2).

Cambridge explained that because of the distances involved, load characteristics, and the urban character of its service territory, its transmission system has been integrated at the 13.8 KV level (Cambridge Description at 4). Cambridge explained that its transmission system forms numerous parallel paths from interconnections with other utilities and generators, and that treatment of its 13.8 KV and above facilities as transmission has been reflected in its transmission tariffs, which have been on file at FERC since 1987 (id. at 5, 8).[7]

Historically, Cambridge's distribution system has consisted of the facilities providing service at 4.16 KV or below (id. at 5). Cambridge noted that virtually all of its retail customers take service at or below 4.16 KV, with the majority taking service at the 120/240

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[7] Cambridge noted that FERC has stated that lower voltage facilities that are integrated perform a transmission function even though such facilities may at times operate in a radial manner: "Lower voltage transmission facilities are 'integrated', ... when, in addition to being connected to higher voltage facilities, the lower voltage facilities are themselves interconnected and designed to operate in parallel. This is also referred to as 'looping,' that is, the lower voltage transmission facilities form parallel paths for electric energy with the higher voltage transmission facilities. The existence of two or more parallel transmission paths from sources of power to receiving points establishes integration. This is true even where one of the parallel paths is normally operated 'opened,' that is, with the connection broken by opening a switch." Sierra Pacific Power Co. v. FERC, 793 F2d 1086, 1088 (9th Cir. 1986).

volt level (id.). Cambridge noted that depending on the load conditions, power routinely reverses direction on its integrated transmission facilities, but that a reversal in the direction of power flow on its distribution facilities almost never occurs (id. at 4, 8-9).

c. Classification under FERC's Test

Cambridge asserted that its historical classification method is consistent with FERC's test (Cambridge Description at 12-13). In support of its assertion, Cambridge analyzed its transmission and distribution facilities and concluded that its distribution facilities are local distribution facilities under FERC's test because they meet indicators one through five, and seven (id. at 6-11). Cambridge asserted that FERC's sixth indicator, pertaining to metering, is not a meaningful criterion for certain New England utilities, including Cambridge (id. at 10). Cambridge explained that measurement of power flows at the transmission/distribution interface has typically not been employed by New England utilities since there has been no explicit need to monitor flows at higher voltage levels except at interfaces between utilities (id.). Cambridge noted that the metering practices within New England have been driven primarily by New England Power Pool ("NEPOOL") billing procedures, which take into account power flows between utilities (id.). Cambridge stated that an apparent inconsistency arises between its meter locations and how the transmission/distribution border would be identified under FERC's sixth indicator (id.). Cambridge suggested that, based on historical metering practices in New England, a strict application of FERC's sixth indicator would be inappropriate (id.). No party filed comments to dispute Cambridge's conclusion regarding its facility classification under FERC's test.

2. Analysis and Findings

The Department has reviewed Cambridge's historical method for classifying facilities -- a method that considered the facilities' major purposes, operating characteristics, and the USAC guidelines. The Department has evaluated Cambridge's facility classification in terms of FERC's test, and we find that Cambridge's classification of its distribution facilities is consistent with FERC's test, with the exception of FERC's sixth indicator. The Department notes that Cambridge has described a disparity between metering practices based on NEPOOL billing procedures and FERC's sixth indicator. While the scope of this disparity has not been delineated with respect to the electric utilities operating in New England, it is clear that Cambridge has formulated its metering practices to reflect NEPOOL procedures. Because Cambridge's facility classification has met all other indicators of FERC's test, and because Cambridge's metering practices are based on historical methods, the Department finds that FERC's sixth indicator need not be applied to Cambridge. Accordingly, the Department finds that Cambridge's distribution facilities are properly classified as local distribution.

C. Commonwealth Electric Company

1. Description

a. Commonwealth's Transmission and Distribution Systems

Commonwealth stated that its transmission system serves the three purposes identified by Cambridge (Commonwealth Description[8] at 3). Commonwealth stated that its transmission

[8] In response to the Department's request for information, Commonwealth provided a written description of its transmission and distribution facilities, its historical classification (continued...)

system consists of about 358 miles of 345/115 KV circuits and eleven transmission switching/substations (id. at 4). Commonwealth stated that its transmission system is connected with New England's bulk transmission system at the 345 KV level, and with the BECo and EUA systems at 115 KV (id.). Commonwealth noted that its wholesale transmission customers, i.e., BECo, EUA, and NEP, take service at either 115 KV or 345 KV (id. at 5).

Commonwealth noted that its distribution system consists of about 18,191 miles of underground and overhead circuits operating at 24 KV and below, and 157 distribution substations (id. at 4). Commonwealth explained that virtually all of its retail customers take service at 24 KV or below, with the majority taking service at 120/240 volts (id. at 5). Commonwealth contended that its distribution system serves local retail loads and is not used to move power across Commonwealth's service territory or off-system to third parties (id.).

b. Historical Classification Method

Commonwealth's presentation regarding its historical classification method was identical to that of Cambridge with three exceptions: (1) Commonwealth's transmission system has been designed to be integrated at the 345/115 KV level; (2) historically, Commonwealth's facilities providing service at 115 KV and above were viewed as transmission (Commonwealth Description at 5); and (3) historically, Commonwealth's facilities providing service at 24 KV

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[8] (...continued)
method, and an analysis of its facility classification under FERC's test.

or below were viewed as distribution (Commonwealth Description at 5).[9]

c. Classification under FERC's Test

Commonwealth asserted that its historical classification method is consistent with FERC's test (Commonwealth Description at 13). In support of its assertion, Commonwealth analyzed its transmission and distribution facilities using FERC's test and concluded that its distribution facilities are local distribution facilities under FERC's test because they meet FERC indicators one through five, and seven (id. at 6-13). Commonwealth reiterated the arguments presented by Cambridge regarding the applicability of FERC's sixth indicator (id. at 10-11). No party filed comments to dispute Commonwealth's conclusion regarding its facility classification under FERC's test.

2. Analysis and Findings

For the reasons cited in our analysis of Cambridge's proposal, above, the Department finds that the sixth indicator of FERC's test should not be applied to Commonwealth.

The Department has reviewed Commonwealth's historical method for classifying facilities -- a method that considered the facilities' major purposes, operating characteristics, and the USAC classification guidelines. The Department has evaluated Commonwealth's facility classification in terms of FERC's test, and we find that Commonwealth's classification of its distribution facilities is consistent with FERC's test and that its distribution facilities are

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[9] An exception to Commonwealth's 24 KV criterion for distribution facilities are its two 34.5 KV circuits, classified as distribution, that connect EUA's 115 KV system to Commonwealth's 13.2 KV facilities for service to Commonwealth customers in the Town of Freetown (Commonwealth Description at 5).

properly classified as local distribution.

D. Eastern Edison Company

1. Description

a. EECo's Transmission and Distribution Systems

EUA stated that its transmission system serves two major purposes: (1) to integrate generation resources over large geographical areas; and (2) to deliver power to local distribution supply systems (EUA Description[10] at 10). EUA stated that its transmission system consists of facilities providing service at 115 KV or higher (id.). EUA explained that its transmission system is interconnected with the transmission systems of neighboring utilities at a number of locations, and that retail customers are not directly connected to its transmission facilities (id.).

EUA stated that its distribution systems, including that of its EECo subsidiary, consist primarily of 14 KV class facilities (id. at 6). EUA noted that some distribution areas may be served by facilities of the 4 KV, 23 KV, or 69 KV class (id.). EUA noted that power flowing on its distribution system is consumed within the distribution service area, i.e., distribution facilities are not used to transmit bulk power from one geographic area to another (id.).

b. Historical Classification Method

EUA stated that, historically, its facilities of 115 KV or higher were classified as

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[10] EECo's submittal in this proceeding relied on materials provided by its corporate affiliate, EUA. In response to the Department's request for information, EUA provided a written description of its transmission and distribution facilities, its historical classification method, and an analysis of its facility classification under FERC's test.

transmission while facilities operating below that voltage level were classified as distribution (EUA Description at 10). EUA asserted that its corporate structure has historically produced functional and jurisdictional separations that are consistent with FERC's test (id. at 1-2). EUA stated that the transmission function has been assigned historically to its Montaup Electric Company ("Montaup") subsidiary, while the distribution function has been assigned historically to retail subsidiaries such as EECo (id. at 1).[11] In addition, EUA asserted that facilities owned or operated by Montaup are properly classified as transmission in light of Montaup's customers, voltage class, and the configuration of Montaup's facilities (id. at 2).

c. Classification under FERC's Test

EUA asserted that its historical classification method is consistent with FERC's test (EUA Description at 1). In support of its assertion, EUA provided an analysis of its facilities that concluded that its distribution facilities are local distribution facilities because they meet each of the indicators composing FERC's test (id. at 1-10). Further, EUA maintained that its facility classification is properly aligned with respect to rate jurisdiction (id. at 5). EUA contended that FERC already sets the rates for Montaup's transmission facilities, support payments, and any wholesale use of distribution facilities, while state regulators set the rates for distribution facilities (id. at 2). No party filed comments to dispute EUA's conclusion

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[11] EUA noted that in a limited number of instances, facility ownership may cross corporate boundaries (EUA Description at 1). For example, EECo owns certain transmission facilities while Montaup owns a limited number of distribution facilities (id. at 1, 4). According to EUA, such instances are reconciled because EECo's transmission facilities are leased to Montaup under an arrangement governed by FERC, and EECo supports the costs of Montaup's distribution facilities (id. at 1).

regarding its facility classification under FERC's test.

2. Analysis and Findings

The Department has reviewed EUA's historical method for classifying facilities -- a method that considered the facilities' major functions and operating characteristics. The Department has evaluated EUA's facility classification in terms of FERC's test, and we find that EUA's classification of its distribution facilities is consistent with FERC's test and that its distribution facilities are properly classified as local distribution.

E. Fitchburg Gas and Electric Light Company

1. Description

a. FG&E's Transmission and Distribution Systems

FG&E stated that its transmission system consists of 115 KV and 69 KV circuits, a single 115/69 KV substation, and two 69/13.8 KV substations (FG&E Description[12] at 5). FG&E stated that a significant portion of its transmission system has been designated as a Pool Transmission Facility ("PTF") by NEPOOL due to the presence of a generator over 25 megawatts ("MW") in size (id. at 6).

FG&E stated that its distribution system consists of circuits operating at voltages of 4.16 KV and 13.8 KV, and substations operating at 69/13.8 KV and 13.8/4.16 KV (id. at 5).

b. Historical Classification Method

FG&E noted that, historically, transmission classification was based on the

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[12] In response to the Department's request for information, FG&E provided a written description of its transmission and distribution facilities, its historical classification method, and an analysis of its facility classification under FERC's test.

transmission of power from one point to another, construction in a right-of-way as opposed to a roadway, and the absence of customer service drops (FG&E IR-1). FG&E noted that its classification of transmission facilities was not necessarily based on voltage and in some cases 13.8 KV lines were classified as transmission (id.).

FG&E further noted that, historically, classification as distribution was determined by the presence of distribution transformers which convert system voltage to customer voltage (id.). FG&E also noted that distribution classification was based on voltage of 15 KV or below, construction along a roadway, and the presence of customer service drops (id.). FG&E stated that once an initial determination was made as to the classification of a facility, all components installed during initial and subsequent construction were booked to the relevant transmission or distribution accounts in accordance with the USAC guidelines (id.).

c. Classification under FERC's Test

FG&E stated that its historical classification method for classifying distribution facilities is consistent with FERC's test (FG&E Description 6-8). FG&E stated that none of FERC's seven indicators supported a classification of such facilities as transmission (FG&E IR-6). Moreover, FG&E stated that most facilities operating below 69 KV, including its 69/13.8 KV substations, may be unambiguously categorized as local distribution under FERC's test (id.).

FG&E noted that its historical classification method resulted in three major subcategories of transmission facilities: (1) PTF transmission facilities, which by definition are involved in interstate commerce; (2) non-PTF transmission facilities involved in interstate

commerce; and (3) non-PTF transmission facilities not involved in interstate commerce (FG&E IR-6). Based on its analysis using the seven indicators of FERC's test, FG&E determined that the first two subcategories of transmission facilities should remain classified as transmission (id.). In particular, FG&E recognized that its PTF facilities met FERC's second, third, and fourth indicators; and that its non-PTF transmission facilities involved in interstate commerce were clearly used to transport power to other markets (id.).

With respect to its remaining category of transmission facilities -- non-PTF transmission facilities not involved in interstate commerce -- FG&E noted that an application of FERC's test failed to support the continued classification of such facilities as transmission (id.). FG&E determined that eight 69 KV radial power lines currently classified as transmission were actually serving a distribution function (id.). Similarly, FG&E determined that the non-PTF portions of four 69/13.8 KV substations classified as transmission were not involved in interstate commerce and were also actually serving a distribution function (id.). Accordingly, FG&E contended that these facilities should be reclassified as local distribution (id.). No party filed comments to dispute FG&E's conclusion regarding its facility classification under FERC's test.

2. Analysis and Findings

The Department has reviewed FG&E's historical method for classifying facilities -- a method that considered the facilities' operating characteristics and the USAC classification guidelines. The Department has evaluated FG&E's facility classification in terms of FERC's test, and we find (1) that FG&E's classification of its distribution facilities is consistent with

FERC's test and that its distribution facilities are properly classified as local distribution, and (2) that continued classification of FG&E's non-PTF transmission facilities not involved in interstate commerce as transmission is inconsistent with FERC's test, and (3) that such facilities should be reclassified as local distribution.

F. Massachusetts Electric Company

1. Description

a. MECo's Transmission and Distribution Systems

NEES stated that its transmission system serves two major purposes: (1) to integrate generation resources over a large geographical area; and (2) to deliver power to local distribution systems (NEES Description[13] at 13). NEES noted that, by definition, a transmission system is always interconnected to the transmission systems of neighboring utilities (id. at 13). NEES noted that its transmission system is generally a 69 KV or greater class system (id.). However, NEES indicated that when lower voltage facilities, such as 34.5 KV, are used to integrate generating units or interconnect with other utilities, such facilities are also considered as transmission (id. at 10, 13).[14]

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[13] In response to the Department's request for information from MECo, NEES provided a written description of its transmission and distribution facilities, its historical classification method, and an analysis of its facility classification under FERC's test. MECO's submittal in this proceeding relied in part on such materials (NEES Description at 1-14)

[14] MECo described two circumstances where its distribution facilities are used in a non-distribution function (MECo IR-2, IR-6). First, MECo facilities are used for wheeling to supply wholesale loads (MECo IR-2). For example, MECo facilities are used to supply power to the Groveland Municipal Light Company (id.). In such cases, consistent with an arrangement between MECo and NEP, NEP supports all, or a portion of, MECo's

(continued...)

NEES stated that the distribution facilities of its retail subsidiaries, including MECo, are typically below 69 KV, i.e., 5, 15, 25, or 35 KV class facilities (id. at 6, 12). NEES noted that the local distribution systems are typically supplied from the 115 KV or 69 KV transmission system through one or more step-down transformers owned or controlled by NEP (id. at 6). NEES noted that operations of its distribution facilities have no effect on the operations of its transmission system (id. at 8).

b. Historical Classification Method

NEES asserted that its corporate structure has historically produced functional and jurisdictional separations that are consistent with FERC's test (NEES Description at 1). NEES stated that the transmission function has been assigned historically to its NEP subsidiary, while the distribution function has been assigned historically to retail subsidiaries such as MECo (id.). In instances where facility ownership does not correspond with the NEES corporate structure, control, and ratemaking authority over assets have been resolved through a FERC-jurisdictional integrated facilities agreement ("G&T Agreement") between NEP and the retail subsidiary (id. at 5). Under the terms of the NEP/MECo G&T Agreement, any transmission assets owned by MECo are controlled and operated by NEP, while any distribution assets

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[14] (...continued)
facilities based on the cost-of-service associated with the facilities (id.). MECo receives a revenue credit from NEP which is reflected in MECo's total cost-of-service (id.). Second, MECo's distribution facilities are used to transport power from generators to the transmission grid (id.). For example, MECo distribution facilities are used to wheel power from Refuse Fuels, a generating unit located on a 23 KV line (id.). In such cases, NEP charges wheeling customers for the wholesale use of MECo's distribution facilities (id.). NEP, in turn, passes on to MECo any revenues it receives for the use of MECo's facilities (id.).

owned by NEP are controlled and operated by MECo (id.). NEES stated that MECo is compensated by NEP for NEP's use of its transmission facilities; similarly, NEP receives compensation from MECo for MECo's use of NEP's distribution facilities (id.).[15] According to NEES, rate recovery for facilities used for wholesale wheeling is determined by FERC, while rate recovery for facilities used for distribution is determined by state regulators (id.). NEES also stated that it relies on the USAC guidelines (NEES IR-3).

c. Classification under FERC's Test

NEES asserted that its historical classification method is consistent with FERC's test (NEES Description at 1-2). In support of its assertion, NEES provided an analysis of its facilities and concluded that its historical classification method meets each of the indicators composing FERC's test (id. at 7-13). Further, NEES noted that the results of its historical classification method have been accepted in the past for ratemaking purposes by both the Department and FERC (NEES Comments). According to NEES, acceptance of its facility classification proposal, as well as the facility classification proposals submitted by the other Massachusetts electric companies, would neither harm competitive markets nor create discernible rate disparities for any customer class (id.).

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[15] MECo noted that wholesale customers are provided with an option for transformer ownership (MECo Comments). Under NEP rate design, a wholesale customer may install its own transformer or have a NEP-owned transformer installed (id.). If the customer chooses a NEP-owned transformer, then NEP recovers the costs of that transformer through a surcharge on that customer's transmission rate (id.). MECo contended that this approach provided wholesale customers with flexibility and convenience (id.).

2. Enron's Comments

Enron claims that MECo has incorrectly classified certain facilities (Enron Comments at 1). Specifically, Enron asserts that MECo's major distribution substations have been misclassified as transmission (id.). Enron contends that as a result of this misclassification, MECo's transmission costs are overstated and its distribution costs are understated (id. at 1-2).

3. Analysis and Findings

With respect to Enron's concern regarding MECo's substations, the Department finds (1) that substation transformers installed by NEP on behalf of a wholesale customer are properly considered transmission in light of the wholesale nature of the transaction, (2) that NEP recovers the costs of such installations with a surcharge assigned to the particular wholesale transmission customer, i.e., the costs are borne by a particular party and not rolled into NEP's transmission tariffs, and (3) that reconciliation of costs between NEP and MECo is accounted for through long-standing reciprocity arrangements that have been accepted by the Department and FERC.

The Department has reviewed NEES' historical method for classifying facilities -- a method that considered the facilities' major purposes, operating characteristics, and the USAC classification guidelines. The Department has evaluated NEES' facility classification in terms of FERC's test, and we find that NEES' classification of its distribution facilities is consistent with FERC's test and that its distribution facilities are properly classified as local distribution.

G. Western Massachusetts Electric Company

1. Description

a. WMECo's Transmission and Distribution Systems

WMECo stated that its transmission system consists of facilities operating at 69 KV and above (WMECo Description[16] at 2). WMECo stated that its transmission system consists of about 104 miles of 345 KV facilities, 340 miles of 115 KV facilities, 5 miles of 69 KV facilities and 15 transmission substations rated at 69 KV or above (id. at 2, 10). WMECo stated that its transmission system interconnects with neighboring utilities at numerous locations and that its 345 KV system interconnects directly with the New York control area (id. at 3).

WMECo stated that its distribution system consists of 23 KV, 13.8 KV, and lower voltage facilities (id. at 5-6). WMECo noted that its 23 KV and 13.8 KV facilities feed step-down substations that supply 8.32 KV, 4.8 KV, or 4.16 KV facilities (id.). WMECo stated that its distribution system also includes 21 substations (id. at 10).

b. Historical Classification Method

WMECo stated that, historically, its facilities operating at voltages greater than 23 KV were typically classified as transmission (WMECo Description at 8; WMECo IR-3). WMECo explained that, historically, it has also relied on the USAC guidelines and functional indicators similar to those in FERC's test (WMECo Description at 1-2; WMECo IR-3). WMECo stated

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[16] In response to the Department's request for information, WMECo provided a written description of its transmission and distribution facilities, its historical classification method, and an analysis of its facility classification under FERC's test.

that currently it employs four principles to differentiate distribution facilities from transmission facilities: (1) lower voltage distribution systems are primarily installed to connect customer loads; (2) distribution substations are primarily installed to interconnect lower voltage systems to the bulk power transmission system; (3) transmission substations are primarily installed to reliably integrate transmission facilities; and (4) 100 percent of a substation's costs, including all "inside the fence" costs, are assigned entirely to the transmission function or entirely to the distribution function, depending on the designation of a particular substation (WMECo Description at 1-2).

WMECo stated that it has consistently applied three additional indicators to classify its substations, as follows: (1) distribution substations are located electrically primarily to feed local distribution systems; (2) power flows into distribution substations; it rarely, if ever, flows out; and (3) distribution substations do not facilitate the switching of transmission facilities (id. at 8-9).

c. Classification under FERC's Test

WMECo asserted that its historical classification method is consistent with FERC's test (id. at 10). In support of its assertion, WMECo provided an analysis of its facilities that concluded that its historical classification method meets each of the indicators composing FERC's test (id. at 5-8).In addition, WMECo asserted that its current method of assigning 100 percent of a substation's costs -- including a substation's "inside the fence" costs -- to a single function is reasonable and has been accepted by FERC in the past (WMECo Comments at 1-2). WMECo argued that replacing its current method with a more detailed method would

require significant effort without providing any meaningful improvement (WMECo Comments at 2). According to WMECo, implementing a detailed "inside the fence" cost allocation method would require the use of arbitrary estimates because WMECo's accounting records have not categorized substation costs on a component-by-component basis (WMECo Comments at 2). WMECo asserted that arbitrary estimates would provide no improvement over its current method (WMECo Comments at 2). WMECo contended that while its current method of handling "inside the fence" costs may assign some transmission plant to the distribution function, the opposite may also be true, i.e., some distribution plant may also be assigned to the transmission function (WMECo Comments at 1-2). WMECo concluded that allocating "inside the fence" costs on a detailed basis is unjustifed because, even if it were to be done, the net effect on transmission costs and distribution costs would be insignificant (WMECo Comments at 2).

2. Enron's Comments

Enron asserts that WMECo failed to properly classify its "inside the fence" substation components (Enron Comments at 2). Enron asserts that WMECo's method fails to differentiate between the transmission components and the distribution components that may exist within a distribution substation, and further, that shared costs such as administrative and general are likely to be misstated as a function of WMECo's method (Enron Comments at 2).

3. Analysis and Findings

With respect to Enron's concern, the Department finds (1) that WMECo lacks the accounting information necessary to implement a detailed cost allocation method; (2) that in

the absence of detailed information, cost reallocation would require subjective judgment, which may produce a result no more exact than the cost allocation in place today; and (3) since "inside the fence" costs encompass both transmission and distribution components, WMECo's current allocation method may not be assumed to create an asymmetric result on its face. In addition, the Department notes that, under most circumstances, the potential cost implications to transmission customers and distribution customers based on a facility reclassification are not likely to be appreciable.[17] Therefore, the Department finds that the benefits associated with implementing detailed cost allocation and accounting procedure for this purpose are outweighed by the costs of doing so.

The Department has reviewed WMECo's historical method for classifying facilities -- a method that considered the facilities' operating characteristics and the USAC classification guidelines. The Department has evaluated WMECo's facility classification in terms of FERC's test, and we find that WMECo's classification of its distribution facilities is consistent with FERC's test and that its distribution facilities are properly classified as local distribution.

V. CONCLUSION

The Department has reviewed the facility classification proposals of seven diverse electric companies. The Department notes that in each case FERC's test was performed in recognition of a company's particular load characteristics, service territory geography,

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[17] The Department notes that WMECo's investment in distribution plant exceeds its investment in transmission plant, at a ratio of about 4:1 (FERC Form 1, 1995). Thus, rate effects would be negligible unless sizeable amounts of distribution plant were reclassified as transmission.

engineering and economic aims, and historical method of classification. While company differences are evident a reasonable amount of variation is to be expected given the differing sizes and characteristics of the electric companies in Massachusetts.

The Department notes that there was little controversy in this proceeding -- a single party raised issues regarding the classification proposals of two electric companies -- and that, in the future, parties are free to raise issues related to facility classification during the course of a rate proceeding or by petition to the appropriate regulatory body. Accordingly, the Department finds that further investigation into facility classification is unwarranted at this time.[18]

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[18] Nonetheless, the Department reserves the right to investigate an electric company's facility classification in the future and to reach a different conclusion as may be warranted by changed circumstances.

VI. ORDER

After due notice and consideration, it is

ORDERED: That companies establish facility classification and jurisdiction based on the local distribution facility findings made by the Department with respect to the companies' respective applications of FERC's test.

By Order of the Department,

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Janet Gail Besser, Chair

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John D. Patrone, Commissioner

_____
James Connelly, Commissioner

_____
W. Robert Keating, Commissioner

_____
Paul B.Vasington, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).